

Agenda Date: December 12, 2001
Item No.: 2A

Docket: UE-011569
Company Name: Puget Sound Energy (PSE)

Staff: Graciela Etchart, Regulatory Analyst
Thomas Schooley, Regulatory Analyst
Joelle Steward, Regulatory Analyst

Recommendation:

Allow the new tariff sheet: Original Sheet No. 135, Schedule 135, Green Energy Option – Purchase Rider, to become effective December 27, 2001, as filed. Direct the Company to file a special report by May 15, 2002, showing actual costs and rate of customer participation through April 30, 2002.

Background:

In 2001, the Washington legislature approved EHB 2247, adding a new section to chapter 19.29A RCW that established, beginning January 1, 2002, each electric utility must provide to its retail customers a voluntary option to purchase qualified alternative energy resources. As such, the Legislature defined generation facilities that are fueled by: (a) wind; (b) solar energy; (c) geothermal energy; (d) landfill gas; (e) wave or tidal action; (f) gas produced during the treatment of wastewater; (g) qualified hydropower (generated by fish-friendly facilities); or (h) biomass energy based on solid organic fuels from wood, forest, or field residues, or dedicated energy crops that do not include wood pieces that have been treated with chemical preservatives.

The option provided by EHB 2247 allows customers to purchase green energy resources at fixed or variable rates and for fixed or variable periods of time. A utility may provide qualified alternative energy resource options through either: (a) resources it owns or contracts for or (b) the purchase of credits issued by a clearinghouse or other system by which the utility may secure, verifiable evidence that a second party has a qualified alternative energy resource and that the second party agrees to transfer such evidence exclusively to the benefit of the utility.

The new statute also establishes that all costs and benefits associated with the green option must be allocated only to the customers who voluntarily choose the green option. Each investor-owned utility must report annually to the Commission, beginning October 1, 2002, until October 1, 2012, describing the option offered, the rate of customer participation, the amount of qualified alternative resources purchased by customers, and the amount of utility investments in qualified alternative energy resources.

Puget Sound Energy is proposing a new Schedule 135, Green Energy Option – Purchase Rider. Under this Schedule, PSE will offer green power by marketing green credits, through a partnership with the Bonneville Environmental Foundation (BEF), from whom the Company is purchasing the credits. BEF has a record of promoting and supporting renewable green power in the Northwest and is committed to building new renewables in the Northwest. Under PSE's Schedule 135, customers may purchase an unlimited number of blocks of green energy at \$2.00 each, but the minimum monthly purchase is two blocks or \$4.00. A block is equivalent to a 100 kWh purchase. The monthly charge is in addition to all other charges contained in the rate schedule under which the customer receives service.

Discussion:

(1) The product – PSE's decision to use green credits/tags was based on several factors, among others: (a) the credit option is simple and more flexible than other options because credits are storable and real time balancing of supply and demand is not necessary; (2) credits are less expensive because they do not involve transmission and scheduling expenses; (3) credits create greater economic efficiency as the credits are free to move where electrons can't (i.e. to the markets where they provide the greatest benefit), and (4) credits are analogous to the SO₂ credits market which has been successful in the U.S. for a decade, and is a proven method of reducing pollution at least cost.

The Company decided to require a minimum purchase of two blocks, based on focus groups conducted by the Company and on market analysis studies conducted by the National Wind Coordinating Committee, the National Renewable Energy Laboratory, and the Renewable Northwest Project on customers willingness to pay for green energy. These studies show an average residential contribution of \$4.00 per month. PSE's focus groups indicated a willingness to pay about 10 percent of the electricity bill, that, in this case of PSE's customers, also translates into \$4.00 per month. This translates into two blocks of green power for PSE's customers. The Company's rationale is that most of the persons that would buy one block could also buy two. So, if the minimum sale is two blocks, most customers will buy two blocks. The Company believes that, if the minimum sale is one block, many customers may think they have already done their part buying just one block and the Company will miss selling those additional blocks. PSE states it plans to follow up on the acceptance of the product by its customers, including the possible impact of the minimum purchase requirement of two blocks.

(2) Marketing - With the \$2.00 surcharge and two blocks minimum purchase, and with a forecasted market penetration rate of 0.5 percent, PSE expects to enroll over 5,000 customers in 2002, and 2,500 more during the second year.

To market the product, the Company plans to use a multi-media campaign to reach all customers and to cross-market it, where appropriate, with other services offered. The BEF will support the

mediums and marketing tactics. Those will include: (a) brochures available at events and tradeshow, or personally sent to customers, upon request, (b) bill inserts during the year, as well as information included in the Energywise Newsletter, (c) information on the Company's website, similar to that included in the brochure, (d) information in the Company's eNewsletter, and (e) targeted direct mail to those customer segments that are more likely to buy green power.

(3) Cost – EHB 2247 establishes that all costs and benefits associated with the green option must be allocated only to the customers who voluntarily choose the green option. PSE is buying green credits from BEF at a cost of \$11.50 per 1000 kwh or \$1.15 per 100 kwh blocks. BEF offers green credits directly to the public at a price of \$2.00 per 100 kwh blocks. Originally, BEF had requested from PSE an annual commitment for only 4,000 mwh with a buy-back option for a much higher price. After several rounds of negotiations, the Company obtained the lower price of \$11.50 per 1000 kwh but in exchange for a much higher commitment of 10,000 mwh in 2002 and 15,000 mwh in 2003, without a buy-back option.

The Company arrived to the cost of \$2.00 per block, after adding the corresponding Customer Links, Promotion, and Access Center cost, according to the following detail:

YEAR	2002	2003
EXPENSES		
TAG	\$115,000	\$172,500
CLX	\$ 37,400	\$ 10,000
Promotion	\$ 64,000	\$ 64,000
Access Center	\$ 10,000	\$ 10,000
PRICE PER TAG (100 KWH)		
Tags	\$1.15	\$1.15
CLX	\$0.31	\$0.06
Promotion	\$0.53	\$0.35
Access Center	\$0.08	\$0.06
Subtotal	\$2.08	\$1.61
Taxes	\$0.08	\$0.07
TOTAL PRICE	\$2.16	\$1.68

On November 26, PSE filed a general rate case (Docket UE-011570), requesting an average rate increase of 14.5% for electric services rates. In light of the general rate case filed by the Company, Staff would like to analyze the actual costs of these program in the context of the general rate case. Consequently, Staff would like to receive a special report of the performance of the program during its first four months, including, at least, actual costs of the program as well as the actual rate of customer participation.

Docket UE-011569
December 12, 2001
Page 4

Considerations and Recommendations:

Staff recommends that the Original Sheet No. 135, Schedule 135, Green Energy Option – Purchase Rider be allowed to become effective December 27, 2001, as filed. Staff also recommends that the Company be directed to file a special report by May 15, 2002, showing actual costs and rate of customer participation through April 30, 2002.